# From macro to micro – Westconnex and the westies

*The Grattan Institute and Luke Fraser pointed to an apparent disconnect between macro-policy advisers asking for more infrastructure projects, and micro-economic commentary throwing doubt on those underway. There is more to this than those authors suggest, illustrated by the case of Westconnex which apart from macro level goals aims to benefit western Sydney residents.*

*While the oft-stated concerns for western Sydney are touching out here we’d prefer spending to be closer to our homes than an inner city motorway, particularly if objectives are ‘jobs’ or ‘productivity’.*

## Introduction

The ‘tar baby’ series identified some issues with Australia’s road building. It is worth dusting off a few of the points.[[1]](#endnote-1)

The Grattan Institute’s recent article on infrastructure projects drew attention to a disconnect between macro-economists like in the Reserve Bank calling for more infrastructure projects while micro-economists question the merit of many projects including urban roads like Westconnex. Luke Fraser beat them to the punch by a few minutes.

Grattan and Fraser are too kind.[[2]](#endnote-2)

## Westconnex

Westconnex is a lightning rod for contention; spending on it is nearly enough to have macro effects. It is considered by some to be anathema while others hold it in high esteem. Even a brief mention gets immediate rejoinders. Behind the jousting it illustrates some fundamental matters that need to be borne in mind to understand how macro and micro views might be reconciled.[[3]](#endnote-3)

To borrow an idea from the protagonists here are some points about major urban road projects:

1. The usual economic case for government support, ‘travel time savings’, is conceptually flawed. Among the reasons is the strong argument that the value of travel time savings estimated under assessment guidelines is recoverable from road users ie. government support is not needed for an economic project to proceed. Moreover any such support will cost the economy through deadweight losses of raising tax revenues.[[4]](#endnote-4)
2. Typical proponent claims of getting people home earlier have little connection with productivity or improving the economy even if they are ‘welfare enhancing’ (in micro-economic terms). An increase in economic activity, jobs, productivity, competitiveness etc. flows from increased production not more leisure pleasing though that might be.
3. Macro management issues are largely about sustaining changes eg. in GDP. This is echoed in transport thinking where experts now argue for accessibility for those at society’s margins rather than more mobility for the well-off or for ‘a need for speed’. This is related to the idea behind a 60 (or 30) minute city which benefits from urban and system planning rather than just building inner city roads in an *attempt* to speed up car travel; ‘attempt’ because induced demand can neutralise the short term traffic acceleration of central urban road projects.[[5]](#endnote-5)
4. While Infrastructure Australia endorsed a recent version of Westconnex, its assessment (methodology) is ‘parts oriented’ and incomplete. For example, there is no explicit statements that the project was assessed ‘as if’ there was road pricing.[[6]](#endnote-6)
5. Governments committed substantial financial support to Westconnex prior to Infrastructure Australia’s endorsement. The Commonwealth’s actions have been criticised by the Australian National Audit Office and are not consistent with sound governance or fiscal management.[[7]](#endnote-7)
6. The scope of Westconnex and associated projects continue to grow adding to national debt. Harbour crossings are now being mooted; when will the end be in sight?[[8]](#endnote-8)

These suggest that macro claims such as ‘nation-building’ or ‘productivity’ of road projects that aim to ease car congestion are often overstated. Freight might be different, but governments, advisers and industry groups have largely eschewed the necessary analysis.[[9]](#endnote-9)

These points also suggest that ‘funding’ is not the core issue about major urban road projects. Rather, the issue is the source of finance; the failure to charge for costs of road use. If this was sorted out, much of the rail ‘funding need’ would also disappear. As road and rail projects dominate infrastructure wish lists, the implication is that the ‘infrastructure problem’ concerns macro-finance and not public funding. Hence I respectfully disagree with Infrastructure Partnerships Australia on this and its argument against a Commonwealth infrastructure financing unit.[[10]](#endnote-10)

Road projects such as Westconnex may be worthwhile, and even some government funding might be useful, but the public cannot be reasonably sure of these matters. Appeals that they boost national aggregates fall flat; surely there are better and more certain ways of using public funds to provide a fiscal stimulus and raise the trajectory of productivity.

What of other justifications; like helping western Sydney residents?

## And the westies

It is interesting to read the many opinions about how Westconnex and other projects in central Sydney will benefit people living in the western suburbs.

Western Sydney residents like myself might gain from Westconnex but not largely for reasons advertised by government, proponents or opponents.

If (former?) touted benefits are correct, Westconnex might increase the speed of my infrequent leisure travel to the eastern or northern suburbs if I change travel via the CBD. That is, it would encourage me to drive *through the Sydney CBD for these trips*.[[11]](#endnote-11)

To be clear, Westconnex would change my leisure but not work travel. It is irrelevant to my regular commuting from western Sydney to the CBD or eastern suburbs (or would be if I was still working). Why? Like almost all commuters from the west, public transport – Sydney trains - remains the only sensible option for regular CBD etc. journeys. Westconnex does nothing for this, and please note: Sydney metro threatens to make it worse.[[12]](#endnote-12)

However if I was to go to the Randwick races, visit relatives at Coogee or check out Manly, instead of using public transport or the M7/M2 I would use Westconnex and drive *through the CBD.*

I look forward to seeing some Westconnex protagonists as my old car motors across downtown Sydney on the way to the beach.

Others might have different views or intentions, nonetheless a big ‘thank you’ to motorway proponents and opponents for caring for the westies.

But in future if there is a few spare billion in public funds, say from ‘asset recycling’, I’d prefer the cash to be dropped closer to us than on new central city roads or the metro. Say on things that support sustainable jobs and opportunities closer to home.

J Austen

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1. Tar baby at thejadebeagle.com. [↑](#endnote-ref-1)
2. <https://grattan.edu.au/news/getting-infrastructure-right-one-project-at-a-time/>

and <http://johnmenadue.com/?p=9727>. [↑](#endnote-ref-2)
3. For jousting see: note ii (above) and <https://grattan.edu.au/news/westconnex-audit-offers-another-17b-lesson-in-how-not-to-fund-infrastructure>, and <http://www.smh.com.au/comment/westconnex-is-for-the-people-of-sydney-20160310-gnfr0l.html>, and Tony Shepherd AO, Former Chairman of Westconnex and Sydney Motorway Corporation, *Westconnex vital to Sydney’s future*, Australian Financial Review 18 March 2017.

Some previous comments are at *Sydney 2- toucheth not the monorail* at thejadebeagle.com. [↑](#endnote-ref-3)
4. Two corollaries:

the more economic a project, the higher its benefit cost ratio (assessed under the guidelines), the less justification for public funds.

high benefit cost ratios could further justify government control of revenues collected by the road owner. [↑](#endnote-ref-4)
5. For example:

 **Induced demand:** <http://theconversation.com/do-more-roads-really-mean-less-congestion-for-commuters-39508> and <http://sydney.edu.au/business/__data/assets/pdf_file/0004/75181/itls-wp-10-16.pdf>.

**Accessibility:** <http://web.education.unimelb.edu.au/assets/pospsych/Social%20Exclusion%20and%20the%20Value%20of%20Mobility.pdf>

**60 minute city:** <http://johnmenadue.com/?p=6374> [↑](#endnote-ref-5)
6. Issues with project assessments are outlined are in the plans and assessments section at thejadebeagle.com.

Westconnex first appeared as a ‘project’ (meaning it passed Infrastructure Australia’s Board assessment) in May 2016. <http://infrastructureaustralia.gov.au/projects/files/IPL_170225.pdf>. The summary assessment is at <http://infrastructureaustralia.gov.au/projects/files/Final_WestConnex_Project_Evaluation_Summary.pdf>. The full assessment is not available at the website. [↑](#endnote-ref-6)
7. Australian National Audit Office report is at <https://www.anao.gov.au/work/performance-audit/approval-and-administration-commonwealth-funding-westconnex-project>. Note that both Government and Opposition promised funding two and a half years prior to Infrastructure Australia publishing a positive assessment, that Commonwealth funds were advanced prior to project needs, and that advice to Ministers did not adequately identify costs and risks of a concessional loan. There are at least two governance problems arising: Government committing large (billions of) public funds to a project in advance of a public assessment of the project; the Commonwealth being involved in a road project without taking responsibility - see the federal-state relations section at thejadebeagle.com. [↑](#endnote-ref-7)
8. **Debt**: Roads – another deficit year at thejadebeagle.com

**Scope**: <http://www.afr.com/business/infrastructure/roads/westconnex-what-could-go-wrong-20160919-grjtlo> and see Infrastructure Australia’s project assessment in note vi (below)

**Harbour crossing**: <https://www.westconnex.com.au/related-projects>. [↑](#endnote-ref-8)
9. Freight might be different because its travel time savings can be fully monetised eg. inventory costs, and therefore freight funded infrastructure prima facie boosts productivity. However, the author is unaware of any Australian road project that seeks to take advantage of this, indeed at the national level suggestions along these lines have been dismissed using erroneous information, for example it has been wrongly claimed that the national access regime (which envisages direct user investment in infrastructure) does not and is not intended to apply to roads, see: point 4 of *Tar baby* at thejadebeagle.com. [↑](#endnote-ref-9)
10. Infrastructure Partnerships Australia reported views are at: <http://www.afr.com/opinion/columnists/infrastructure-players-take-on-the-government-20170402-gvbs7p>. Infrastructure Partnerships reportedly referred to ‘risks’ to taxpayers of Government providing loans for infrastructure. This author finds it difficult to see why the risk would be any greater than Government providing grants for the same projects. If the new financing unit led to the Government being (again) advised that roads face a charging problem; ie. they are not ‘privately financeable’ unless there can be charges, this would be all to the good.

Of course, road use has negative externalities and thus regulation or charges in excess of ‘market clearing’ levels are warranted, with some revenues assigned to offsets or mitigation.

Irrespective of funding or financing, grants or loans, there are Constitutional concerns regarding Commonwealth involvement in infrastructure beyond its explicit powers eg. roads. Commonwealth ownership of assets could alleviate some of the governance and federalism problems arising from its current practice of making road grants, provided there was adequate and direct Parliamentary control see: http://www.thejadebeagle.com/commonwealth-urban-transport.html. [↑](#endnote-ref-10)
11. A former iteration of the Westconnex website showed substantial road travel time savings, mainly to the Sydney CBD – see note iv above. Note that these will not flow through to travel time savings on rail, however, rail travel time savings (by timetable improvements) can lead to road travel time savings. [↑](#endnote-ref-11)
12. See, for example <http://atrf.info/papers/2010/2010_xu_milthorpe.pdf>, <http://www.bts.nsw.gov.au/Statistics/Journey-to-Work/default.aspx?FolderID=217#top> and table 8 in <http://www.bts.nsw.gov.au/ArticleDocuments/79/r2015-03-train_statistics_2014_V1.1.pdf.aspx>.

For metro possibly making it worse see note x above and *toucheth not the monorail* series at thejadebeagle.com. [↑](#endnote-ref-12)